TABELL'S MARKET LETTER

Delafield, Harvey, Tabell

909 STATE ROAD, PRINCETON, NEW JERSEY 08540

DIVISION OF

Janney Montgomery Scott Inc.

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It was a hair-coloring product which popularized the phrase "Does She or Doesn't She ?". Last week Wall Street was playing the game of "Was It or Wasn't It ?".

The question in this case referred to whether the intra-day low of 814.69 reached on Tuesday constituted the final culmination of the dizzy slide in stock prices which had brought the Dow down from 950 last April and 920 just two months ago. Those hoping for a definitive pronouncement from this quarter will, we are afraid, be disappointed. We will go so far only as to answer "It might well have been".

The rebound, for example, was nowhere as near definitive as, say, those last few days of May, 1970, during which the Dow plunged some 75 points over a seven-day period and then recovered all of the ground lost over the next four days. At that point, it was obvious to almost anybody that something important had certainly occurred. Nonetheless, last week's action, if short of totally convincing, was highly impressive. After a precipitous 13-point drop on Monday, the market continued its slide with a further seven-point decline on heavy volume in Tuesday morning's trading. Then, with the tape running late on the upside, the entire decline was erased, and prices remained firm on light volume throughout the afternoon. On Wednesday, as major institutions which had been closed for the election-day holiday returned to work, prices were strong from the opening bell and, by the end of the day, the DJIA had managed to post a 14-point gain. The gain was further extended to an intra-day high of 855.21, forty points above the low, on Thursday, before weakness set in late Thursday and Friday.

It is not stretching a point too much to say that the action at mid-week met the classic technical requirements for a selling climax. Such a climax requires the following pre-conditions. 1) The market should decline on heavy volume. 2) A rally on equally heavy or heavier volume should then take place. 3) The rally should "follow through" in subsequent trading. Most of the requirements were met. "Heavy volume" is, of course, an imprecise phrase and Tuesday's 13 million shares was hardly impressive by most standards. It did, nonetheless, represent an increase from recent levels, especially during the early part of the day when 7.6 million shares changed hands in the first two hours vs. only 10.9 million shares the entire day before. Allowances must also be made for the fact that Tuesday was, for many, a holiday. Furthermore, the Wednesday rally, the second biggest of 1971 to date, was also impressive.

Now so-called multiple-climax declines are not unknown, and it would certainly not be unprecedented for the drop to resume and repeat the whole process undergone last week on a more grandiose scale at some lower level. It may, for example, be significant that a number of indicators of public bearishness, such as odd-lot short-selling, had not, last week, reached levels normally characteristic of major bottoms. More important, oscillator-type indicators, while deeply oversold, were stubbornly refusing, as of Friday, to suggest an imminent reversal.

In the present instance, time is likely to be on the investor's side. Before too long, the indicators referred to above will have either signalled a definite reversal or, by their failure to do so, have indicated a continuation of the decline. Furthermore, we have, in the past, pointed out that the rally in a bear market is one of the great mythical beasts of stock market theory. Bear markets tend to get to where they are going with very little in the way of intervening rallies. Therefore, the longer the market can hold and consolidate its gains the better shape it would be in. One of the final tests of the May, 1970 bottom was a small decline in early June which, unlike previous declines, did not plunge through prior support levels but instead quickly reversed itself. Such a test in the next week or so would be impressive evidence in the present case.

Dow-Jones Industrial (Noon) 836.67
S&P (Noon) 94.14
AWT:mn

ANTHONY W. TABELL
DELAFIELD, HARVEY, TABELL